PREFATORY NOTE

These transcripts have been produced from the original raw transcripts in the FOMC Secretariat's files. The Secretariat has lightly edited the originals to facilitate the reader's understanding. Where one or more words were missed or garbled in the transcription, the notation "unintelligible" has been inserted. In some instances, words have been added in brackets to complete a speaker's thought or to correct an obvious transcription error or misstatement.

Errors undoubtedly remain. The raw transcripts were not fully edited for accuracy at the time they were produced because they were intended only as an aid to the Secretariat in preparing the records of the Committee's policy actions. The edited transcripts have not been reviewed by present or past members of the Committee.

Aside from the editing to facilitate the reader's understanding, the only deletions involve a very small amount of confidential information regarding foreign central banks, businesses, and persons that are identified or identifiable. Deleted passages are indicated by gaps in the text. All information deleted in this manner is exempt from disclosure under applicable provisions of the Freedom of Information Act.

APPENDIX

E. M. Truman
October 17, 1988

FOMC Briefing on Mexico

I. Ten days ago Secretary Brady and Chairman Greenspan were called by senior Mexican officials who asked for an urgent meeting.

- A. The meeting was provoked by the decline in the oil prices and a concern that exchange market presssures would accelerate in the period prior to the inauguration of President-elect Salinas on December 1.
- B. The Chairman and the Secretary met with the Mexicans for most of the day last Sunday.
  1. The Mexicans said
  2. Their request was turned aside. It was agreed that the Mexicans would return to Mexico and sharpen their economic policy plans while the U.S. authorities thought about the proposed bridge loan.

II. On Friday, discussions resumed in Washington and continued until 9:00 p.m. last night when agreement was reached on the following approach:

- A. The Mexican authorities agreed to take immediate policy steps in four areas. (These steps were announced by President de la Madrid late Saturday night.)
  1. The 1988 budget will be cut by $260 million (about .7 of GDP annualized) to offset about half of revenue

loss from the lower oil prices and to enable the government to meet its fiscal target for the year.

2. The privatization program will be accelerated and about 50 enterprises are to be sold in October and November for about $350 million excluding the proceeds from the sale of the copper company.

3. Monetary policy is to be tightened.

   (a) After further discussion yesterday, the tightening was defined in terms of progressively raising interest rates,

   (b) Mexico lost about in reserves in the first week in October and about last week.

4. Mexico will immediately seek about $600 million in compensatory financing from the IMF.

<u>THE MATERIAL IN SECTION B BELOW IS HIGHLY CONFIDENTIAL</u>

B. The Mexican authorities also agreed that if the loss of reserves continues at the recent rate and liquid reserves decline

C. In response, the Treasury and Federal Reserve (assuming the FOMC has no objection) have agreed to "develop a short-term bridge loan of up to $3.5 billion."

D. Finally, last night the Mexican Economic Solidarity Pact was extended through December (the first month of the new administration) and President-elect Salinas made a speech outlining the economic policies of his new government. They involve continuation of the process of fiscal restructuring and the process of opening up the Mexican economy externally and internally.

III. The outline of the bridge arrangement would be as follows:

A. $1 billion could involve a potential "window-dressing" operation divided 70/30 between the Federal Reserve and ESF -- in proportion to the existing swap arrangements.

B. $200 million could involve an advance payment on SPR oil purchases.

C. Up to the remaining $2.3 billion could involve the Federal Reserve and ESF on a 50/50 basis bridging through a special swap arrangement to (1) $1.5 billion in World Bank loans, (2) $0.6 in IMF compensatory financing, and (3) drawings on any IMF standby arrangement.

D. None of the drawings on the special swap would be made until the arrangements of the loans to be bridged have been computed.

IV. The proposed press release reads as follows; see attachment.

V. In effect, the proposed arrangements involve promising the Mexican government some bridge financing

VI. What we are seeking is an expression of the FOMC's non-objection to the press release and in effect authorization to enter into the negotiation of the terms of the special bridge loan.

VII. I'd be glad to try to answer any questions.